



STATE OF NORTH CAROLINA

FINANCIAL STATEMENT REVIEW REPORT OF BLUE RIDGE COMMUNITY COLLEGE

FLAT ROCK, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2004

OFFICE OF THE STATE AUDITOR

LESLIE W. MERRITT, JR., CPA, CFP

STATE AUDITOR

FINANCIAL STATEMENT REVIEW REPORT OF

BLUE RIDGE COMMUNITY COLLEGE

FLAT ROCK, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2004

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THE NORTH CAROLINA COMMUNITY COLLEGE SYSTEM

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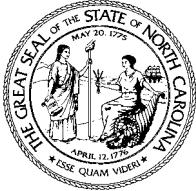
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REVIEWER'S TRANSMITTAL

The Honorable Michael F. Easley, Governor
The General Assembly of North Carolina
Board of Trustees, Blue Ridge Community College

This report presents the results of our financial statement review of Blue Ridge Community College, a component unit of the State of North Carolina, for the year ended June 30, 2004. Our review was made by authority of Article 5A of Chapter 147 of the *North Carolina General Statutes* and was conducted in accordance with *Statements on Standards for Accounting and Review Services* issued by the American Institute of Certified Public Accountants. The objective of a review is to achieve limited assurance that there are no material modifications that should be made to the financial statements in order for the statements to be in conformity with accounting principles generally accepted in the United States of America.

The accounts and operations of the College are an integral part of the State's reporting entity represented in the State's *Comprehensive Annual Financial Report (CAFR)* and the State's *Single Audit Report*. In those reports, the State Auditor expresses an opinion on the State's financial statements. In the *Single Audit Report*, the State Auditor also presents the audit results on the State's internal controls and on the State's compliance with laws, regulations, contracts, and grants applicable to the State's financial statements and to its federal financial assistance programs.

As part of the work necessary for the CAFR and the *Single Audit Report*, the accounts and operations of the College were subjected to review procedures as we considered necessary. In addition, we performed review procedures that we considered necessary for us to report on the accompanying financial statements that relate solely to Blue Ridge Community College. The review procedures were conducted in accordance with *Statements on Standards for Accounting and Review Services* issued by the American Institute of Certified Public Accountants.

The purpose of this report is to present the results of our review of the accompanying financial statements that relate solely to Blue Ridge Community College. Our reporting objectives and review results are:

REVIEWER'S TRANSMITTAL (CONCLUDED)

1. **Objective** – To disclose any material modifications that should be made to the accompany financial statements in order for them to be in conformity with accounting principles accepted in the United States of America.

Results – We are not aware of any material modifications necessary for the accompanying financial statements to be in conformity with accounting principles generally accepted in the United States of America. These matters are more fully described in the Independent Accountant's Review Report on the financial statements.

2. **Objective** – To present significant deficiencies, if any, in internal control over financial reporting which could adversely affect the College's ability to record, process, summarize, and report financial data in the financial statements and present instances of noncompliance, if any, with laws, regulations, contracts, or grants that came to our attention during our review of the financial statements.

Results – The following significant deficiencies in internal control over financial reporting were noted as a result of our review of the financial statements.

Finding

1. Financial Statement Presentation
2. Deficit Net Assets Fund Balance and Cash Overdraft
3. Computer Access Rights

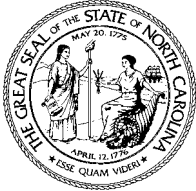
North Carolina General Statutes require the State Auditor to make reports available to the public. Copies of review reports issued by the Office of the State Auditor may be obtained through one of the options listed in the back of this report.



Leslie W. Merritt, Jr., CPA, CFP
State Auditor

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Leslie W. Merritt, Jr., CPA, CFP
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INDEPENDENT ACCOUNTANT'S REVIEW REPORT

Board of Trustees
Blue Ridge Community College
Flat Rock, North Carolina

We have reviewed the accompanying financial statements of Blue Ridge Community College, a component unit of the State of North Carolina, and its discretely presented component unit, as of and for the year ended June 30, 2004, which collectively comprise Blue Ridge Community College's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the College's management. We did not review the financial statements of Blue Ridge Community College Educational Foundation, Inc. Those financial statements were audited by other accountants whose report thereon has been furnished to us, and our report, insofar as it relates to the amounts included for that entity, is based on the report of the other accountants.

A review consists principally of inquiries of College personnel and analytical procedures applied to financial data. It is substantially less in scope than an audit in accordance with auditing standards generally accepted in the United States of America, the objective of which is the expression of an opinion regarding the financial statements in order for them to be in conformity with accounting principles generally accepted in the United States of America.

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis, as listed in the table of contents, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. Such information has been subjected to the inquiry and analytical procedures applied in the review of the basic financial statements, and we are not aware of any material modifications that should be made thereto.

Our review was conducted for the purpose of expressing limited assurance that there are no material modifications that should be made to the basic financial statements in order for them to be in conformity with generally accepted accounting principles. Schedule 1 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

INDEPENDENT ACCOUNTANT'S REVIEW REPORT (CONCLUDED)

Such information has been subjected to the inquiry and analytical procedures applied in the review of the basic financial statements, and we are not aware of any material modifications that should be made thereto.

Leslie W. Merritt, Jr.

Leslie W. Merritt, Jr., CPA, CFP
State Auditor

May 13, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the Blue Ridge Community College's (BRCC) annual financial statements presents an overview of BRCC's financial activities during the fiscal year that ended on June 30, 2004. We encourage readers to consider this information in conjunction with the financial statements and the notes to the financial statements. For more information, please contact the Business Office at 828-694-1717.

Overview of the Financial Statements

This annual statement consists of three parts: Management's Discussion and Analysis, financial statements, and supplementary information. The financial statements also include notes that explain in more detail some of the information in the financial statements.

Required Financial Statements

The financial statements of BRCC report information about BRCC using the economic resources measurement focus and the accrual basis of accounting. These statements offer short and long-term financial information about its activities. The Statement of Net Assets includes all of BRCC's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to BRCC creditors (liabilities). It also provides the basis for evaluating the capital structure of BRCC and assessing the liquidity and financial flexibility of BRCC. All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses, and Changes in Net Assets. This Statement measures the success of BRCC's operations over the past year and can be used to determine whether BRCC has successfully recovered all its costs through tuition and fees, grants and other charges, profitability, and credit worthiness. The final required financial statement is the Statement of Cash Flows. The primary purpose of this statement is to provide information about BRCC's cash receipts and cash payments during the reporting period. This statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities and provides answers to such questions as where did the cash come from, what was cash used for, and what was the change in cash balance during the reporting period.

Financial Analysis

Assets

The assets of the College are divided between current and noncurrent assets.

Current assets include cash, receivables, amounts due from component units, inventories, and notes receivable. The largest change in current assets is the decrease in cash, which is due to a deficit in proprietary funds, which is currently being addressed.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

	<u>2004</u>	<u>2003</u>	<u>Increase/ (Decrease)</u>
Current Assets			
Cash	\$ 423,859.23	\$ 613,432.38	\$ (189,573.15)
Receivables	225,502.13	249,869.69	(24,367.56)
Due from NC Component Units	38,199.50	12,753.21	25,446.29
Inventories	45,684.58	41,993.34	3,691.24
Notes Receivable	<u>72,976.85</u>	<u>60,854.53</u>	<u>12,122.32</u>
Total Current Assets	<u>\$ 806,222.29</u>	<u>\$ 978,903.15</u>	<u>\$ (172,680.86)</u>

Noncurrent assets include cash, amounts due from Primary Government, and capital assets (land, construction in progress, buildings, general infrastructure, and equipment). The \$648,489.94 decrease in noncurrent assets is due to an increase in accumulated depreciation of \$760,224.96. There were additional small changes in the balance of capital assets.

	<u>2004</u>	<u>2003</u>	<u>Increase/ (Decrease)</u>
Noncurrent Assets			
Cash	\$ 50,224.17	\$ 58,608.51	\$ (8,384.34)
Restricted Due from Primary Government	228,192.49	242,456.26	(14,263.77)
Capital Assets	<u>15,727,826.97</u>	<u>16,353,668.80</u>	<u>(625,841.83)</u>
Total Noncurrent Assets	<u>\$ 16,006,243.63</u>	<u>\$ 16,654,733.57</u>	<u>\$ (648,489.94)</u>

Capital Assets

Capital assets decreased in total \$625,841.83. This change is primarily due to recording of accumulated depreciation as stated above. There were also \$134,897.27 total additions to capital assets for buildings and machinery and equipment.

Liabilities

The College's liabilities are divided between current liabilities payable within 12 months and noncurrent liabilities that extend beyond a year. Long-term liabilities include the portion of accrued employee annual leave that will not be paid within the next fiscal year, calculated at the current salary rates for each employee, consistent with the institution's leave policies.

	<u>2004</u>	<u>2003</u>	<u>Increase/ (Decrease)</u>
Liabilities			
Current	\$ 275,608.46	\$ 221,026.38	\$ 54,582.08
Long-Term	<u>1,061,991.41</u>	<u>1,032,261.26</u>	<u>29,730.15</u>
Total Liabilities	<u>\$ 1,337,599.87</u>	<u>\$ 1,253,287.64</u>	<u>\$ 84,312.23</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Total liabilities of the College increased by \$84,312.23 for the year. This increase is primarily due to the increase in accrued vacation of which \$63,782.32 is shown as current.

Net Assets

Total net assets were \$15,474,866.05 for June 30, 2004, which is a decrease of \$905,483.03. Net assets are a measure of the value of all the College's assets after liabilities are deducted. The combination of the decrease in total assets of \$821,170.80 and the increase in total liabilities of \$84,312.23 produces an overall decrease of \$905,483.03 in Net Assets. Net assets invested in capital assets were \$15,104,856.66, a decrease of \$625,841.83 as stated previously. This is the most significant change in Net Assets. Restricted net assets decreased from \$144,280.60 to \$388,115.91. Unrestricted net assets decreased from \$193,544.92 to a deficit of \$18,106.52.

Revenues

The College's revenues are classified as operating and nonoperating revenues.

Operating revenues include net student tuition and fees, federal, State and local grants and contracts, and the revenue received from sales and services, principally comprised of commission received from the bookstore and vending. The largest operating revenue accrues from the College's participation in Federal Title IV financial aid programs. Operating revenues increased a total of \$393,825.89 due primarily to increase in Federal Pell Grant. The decrease in students' tuition and fees is due primarily to the allowance for uncollectibles. The decrease and increase in sales and services and other operating revenues is due primarily to a reclassification of the bookstore's revenue because the bookstore is now contracted out to College Bookstores of America.

	<u>2004</u>	<u>2003</u>	<u>Increase / (Decrease)</u>
Operating Revenues			
Students Tuition and Fees, Net	\$ 1,865,234.46	\$ 1,895,095.55	\$ (29,861.09)
Federal Grants and Contracts	1,324,251.85	915,616.94	408,634.91
State and Local Grants and Contracts	11,095.00	0.00	11,095.00
Sales and Service	106,687.78	198,538.79	(91,851.01)
Other Operating Revenues	172,046.61	76,238.53	95,808.08
Total Operating Revenues	<u>\$ 3,479,315.70</u>	<u>\$ 3,085,489.81</u>	<u>\$ 393,825.89</u>

Nonoperating revenues comprise the major portion of the College's income and include formula allocations from the North Carolina State Board of Community Colleges for current expense, equipment, and capital improvements. Also included are funds appropriated from the Henderson County and Transylvania County Boards of Commissioners, and various other revenues deposited into Institutional Funds. The increase in total nonoperating revenues is

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

due to a significant increase in State aid, \$1,017,669.68, as shown below.

	<u>2004</u>	<u>2003</u>	<u>Increase/ (Decrease)</u>
Nonoperating Revenues			
State Aid	\$ 8,106,790.46	\$ 7,089,120.78	\$ 1,017,669.68
County Appropriation	1,891,270.00	1,740,019.96	151,250.04
Noncapital Grants	872,598.86	1,019,866.21	(147,267.35)
Noncapital Gifts	234,937.18	232,162.35	2,774.83
Investment Income	10,494.87	13,491.74	(2,996.87)
Interest and Fees on Debt	259.39		259.39
Other Nonoperating Revenues	(32,539.88)	473.70	(33,013.58)
Total Nonoperating Revenues	<u>\$ 11,083,810.88</u>	<u>10,095,134.74</u>	<u>\$ 988,676.14</u>

Operating Expenses

The operating expenses of the College are comprised principally of the direct cost of personnel and their fringe benefits identified as salaries and benefits. Depreciation expense is identified consistent with the requirements for GASB Statements No. 34/35. Total operating expenses increased a total of \$476,096.84. The decrease of \$622,520.04 in supplies and materials was offset by increases in salaries and benefits of \$488,189.23 and in services of \$278,616.70. Supplies and materials expense decreased with the completion of the energy conservation repair and renovation expense. The increase in salaries and benefits expense is due to the expense portion of the compensated absences. The scholarships and fellowships increased primarily because of increases in Federal Pell grants.

	<u>2004</u>	<u>2003</u>	<u>Increase/ (Decrease)</u>
Operating Expenses			
Salaries and Benefits	\$ 10,336,837.73	\$ 9,848,648.50	\$ 488,189.23
Supplies and Materials	1,343,358.73	1,965,878.77	(622,520.04)
Services	1,875,602.28	1,596,985.58	278,616.70
Scholarships and Fellowships	1,138,239.56	833,991.84	304,247.72
Utilities	422,286.51	412,161.38	10,125.13
Depreciation	760,224.96	742,786.86	17,438.10
Total Expenses	<u>\$ 15,876,549.77</u>	<u>\$ 15,400,452.93</u>	<u>\$ 476,096.84</u>

Capital Contributions

Capital contributions are received from appropriations from the North Carolina State Board of Community Colleges under a formula allocation for educational equipment and library books. The Board also provides construction funds as part of the North Carolina 2000 Higher Education Bond Referendum and previous legislative action providing funds for renovations

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)

and repairs. Total capital contributions decreased \$699,180.30 with the reduction in Capital Grants related to the energy conservation project.

	<u>2004</u>	<u>2003</u>	<u>Increase/ (Decrease)</u>
Capital Contributions			
State Capital Aid	\$ 407,940.16	\$ 399,700.54	\$ 8,239.62
Capital Grants		698,760.92	(698,760.92)
Capital Gifts		8,659.00	(8,659.00)
Total Capital Contributions	<u>\$ 407,940.16</u>	<u>\$ 1,107,120.46</u>	<u>\$ (699,180.30)</u>

Significant Capital Asset Activity

The College had \$1,324,193.00 in projects authorized and in process at June 30, 2004. These projects were funded from the 2000 North Carolina Higher Education Bond Referendum, which provides for the renovation and repair of facilities. Funds are allocated according to a cash flow schedule established by the North Carolina State Board of Community Colleges with final distribution of funds ending June 2007. The College completed two repair and renovation projects during the year - Project 1276 (Campus Wide Wiring/Infrastructure/Distance Learning) and Project 1304 (General Renovations Phase II - Flat Rock Campus). The College has one project in process at year end, Project 1350 (Renovations to Student Center/Driveways, Drainage/PE Facility, etc.).

Significant Effects on Financial Position

As a result of actions taken by the North Carolina General Assembly, tuition for curriculum students was increased to \$35.50 a credit hour with a maximum of \$568.00 for 16 or more hours. This represents a 3.6% increase in the direct cost to students attending the College.

At fiscal year ended June 30, 2004, the College had not received any official information on the 2004-2005 Budget. However, the State of North Carolina is encountering a budget crisis and the possibility of reductions to State allocations by actions of the Governor to meet continuing State budget shortfalls should be acknowledged.

Blue Ridge Community College
Statement of Net Assets
June 30, 2004

Exhibit A-1

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 418,180.89
Restricted Cash and Cash Equivalents	5,678.34
Receivables (Note 3)	225,502.13
Due from State of North Carolina Component Units	38,199.50
Inventories	45,684.58
Notes Receivable, Net (Note 3)	72,976.85
	<hr/>
Total Current Assets	806,222.29

Noncurrent Assets:

Restricted Cash and Cash Equivalents	50,224.17
Restricted Due from Primary Government	228,192.49
Capital Assets - Nondepreciable (Note 4)	1,630,640.00
Capital Assets - Depreciable, Net (Note 4)	14,097,186.97
	<hr/>
Total Noncurrent Assets	16,006,243.63
	<hr/>
Total Assets	16,812,465.92

LIABILITIES

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 5)	56,608.98
Deferred Revenue	84,392.35
Funds Held for Others	9,681.93
Long-Term Liabilities - Current Portion (Note 6)	124,925.20
	<hr/>
Total Current Liabilities	275,608.46

Noncurrent Liabilities:

Long-Term Liabilities (Note 6)	1,061,991.41
	<hr/>
Total Liabilities	275,608.46

NET ASSETS

Invested in Capital Assets, Net of Related Debt	15,104,856.66
Restricted for:	
Nonexpendable:	
Other	51,500.00
Expendable:	
Scholarships and Fellowships	1,322.75
Loans	87,368.48
Capital Projects	208,698.73
Other	39,225.95
Unrestricted	(18,106.52)
	<hr/>
Total Net Assets	\$ 15,474,866.05

The accompanying notes to the financial statements are an integral part of this statement.

***Blue Ridge Community College
Statement of Revenues, Expenses, and
Changes in Net Assets
For the Fiscal Year Ended June 30, 2004***

Exhibit A-2

REVENUES

Operating Revenues:

Student Tuition and Fees, Net (Note 8)	\$ 1,865,234.46
Federal Grants and Contracts	1,324,251.85
State and Local Grants and Contracts	11,095.00
Sales and Services (Note 8)	106,687.78
Other Operating Revenues	172,046.61

Total Operating Revenues	3,479,315.70
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EXPENSES

Operating Expenses:

Salaries and Benefits	10,336,837.73
Supplies and Materials	1,343,358.73
Services	1,875,602.28
Scholarships and Fellowships	1,138,239.56
Utilities	422,286.51
Depreciation	760,224.96

Total Operating Expenses	15,876,549.77
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Operating Loss	(12,397,234.07)
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NONOPERATING REVENUES (EXPENSES)

State Aid	8,106,790.46
County Appropriations	1,891,270.00
Noncapital Grants	872,598.86
Noncapital Gifts	234,937.18
Investment Income, Net	10,494.87
Interest and Fees on Debt	259.39
Other Nonoperating Expenses	(32,539.88)

Net Nonoperating Revenues	11,083,810.88
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Loss Before Other Revenues	(1,313,423.19)
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State Capital Aid	407,940.16
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Decrease in Net Assets	(905,483.03)
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NET ASSETS

Net Assets, July 1, 2003 as Restated (Note 15)	16,380,349.08
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Net Assets, June 30, 2004	\$ 15,474,866.05
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The accompanying notes to the financial statements are an integral part of this statement.

Blue Ridge Community College
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2004

Exhibit A-3

CASH FLOWS FROM OPERATING ACTIVITIES

Received from Customers	\$ 3,586,311.53
Payments to Employees and Fringe Benefits	(10,204,697.84)
Payments to Vendors and Suppliers	(3,697,778.21)
Payments for Scholarships and Fellowships	(1,138,239.56)
Loans Issued to Students	(12,122.32)
Collection of Loans to Students	360.08
Other Payments	(32,682.86)
	<u>(11,498,849.18)</u>
Net Cash Used by Operating Activities	<u>(11,498,849.18)</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State Aid Received	8,106,790.46
County Appropriations	1,891,270.00
Noncapital Grants Received	833,253.31
Noncapital Gifts and Endowments Received	234,937.18
	<u>11,066,250.95</u>
Net Cash Provided by Noncapital Financing Activities	<u>11,066,250.95</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

State Capital Aid Received	422,203.93
Proceeds from Sale of Capital Assets	496.14
Acquisition and Construction of Capital Assets	(140,629.27)
Principal Paid on Capital Debt and Leases	(58,184.32)
Interest Paid on Capital Debt and Leases	259.39
	<u>224,145.87</u>
Net Cash Provided by Capital and Related Financing Activities	<u>224,145.87</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Investment Income	<u>10,494.87</u>
Net Decrease in Cash and Cash Equivalents	(197,957.49)
Cash and Cash Equivalents, July 1, 2003	<u>672,040.89</u>
Cash and Cash Equivalents, June 30, 2004	<u>\$ 474,083.40</u>

**RECONCILIATION OF OPERATING LOSS
TO NET CASH USED BY OPERATING ACTIVITIES**

Operating Loss	\$ (12,397,234.07)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	760,224.96
Miscellaneous Nonoperating Income	(32,539.88)
Changes in Assets and Liabilities:	
Receivables	24,367.56
Inventories	(3,691.24)
Notes Receivable, Net	(12,122.32)
Accounts Payable and Accrued Liabilities	(40,276.94)
Deferred Revenue	82,988.35
Funds Held for Others	(142.98)
Compensated Absences	119,577.38
Net Cash Used by Operating Activities	<u>\$ (11,498,849.18)</u>

***Blue Ridge Community College
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2004***

Exhibit A-3

Page 2

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:

Cash and Cash Equivalents	\$	418,180.89
Restricted Cash and Cash Equivalents		5,678.34

Noncurrent Assets:

Restricted Cash and Cash Equivalents		50,224.17
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Total Cash and Cash Equivalents - June 30, 2004

	\$	<u>474,083.40</u>
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NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Increase in Receivables Related to Nonoperating Income	\$	25,446.29
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The accompanying notes to the financial statements are an integral part of this statement.

Blue Ridge Community College Educational Foundation, Inc.
Statement of Financial Position
June 30, 2004

Exhibit B-1

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 1,152,851.00
Short-Term Investments	68,750.00
Promise to Give	45,575.00
Inventory of Items for Resale:	
Vehicles	100.00
Land	20,900.00
Construction in Progress	10,199.00
	<hr/>
Total Current Assets	1,298,375.00

Other Assets:

Property and Equipment, Net	263,033.00
Trust Investments	38,202.00
Beneficial Interest in an Estate	190,100.00
Other Investments	3,130,806.00
	<hr/>
Total Other Assets	3,622,141.00

Total Assets	<hr/> <hr/> <u>\$ 4,920,516.00</u>
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LIABILITIES AND NET ASSETS

Current Liabilities:

Liability Under Trust Agreements, Current Portion	\$ 280.00
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Net assets:

Unrestricted	347,701.00
Temporarily Restricted	453,101.00
Permanently Restricted	4,119,434.00
	<hr/>
Total Net Assets	4,920,236.00

Total Liabilities and Net Assets	<hr/> <hr/> <u>\$ 4,920,516.00</u>
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See Note 1 in the Notes to the Financial Statements

Blue Ridge Community College Educational Foundation, Inc.
Statement of Activities
For the Fiscal Year Ended June 30, 2004

Exhibit B-2

Public Support and Revenues:	
Contributions	\$ 1,291,058.00
Interest and Dividends	34,302.00
Net Realized Gains +C40 on Investments	71,209.00
Unrealized Gains on Investments	272,143.00
Gain on Sale of Real Estate Held for Resale	45,354.00
Change in Value of Split Interest Agreements	(2,528.00)
Other	16,507.00
	<hr/>
Total Public Support and Revenues	1,728,045.00
	<hr/>
Expenses:	
Program Services:	
Scholarship Awards	173,607.00
Other Awards	182,423.00
Other Program Services	8,446.00
	<hr/>
Total Program Services	364,476.00
Supporting Services	90,923.00
	<hr/>
Total Expenses	455,399.00
	<hr/>
Increase in Net Assets	1,272,646.00
Net Assets at Beginning of Year	3,647,590.00
	<hr/>
Net Assets at End of Year	\$ 4,920,236.00
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See Note 1 in the Notes to the Financial Statements

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BLUE RIDGE COMMUNITY COLLEGE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

- A. Financial Reporting Entity** - The concept underlying the definition of the financial reporting entity is that elected officials are accountable to their constituents for their actions. As required by accounting principles generally accepted in the United States of America, the financial reporting entity includes both the primary government and all of its component units. An organization other than a primary government serves as a nucleus for a reporting entity when it issues separate financial statements. Blue Ridge Community College is a component unit of the State of North Carolina and an integral part of the State's *Comprehensive Annual Financial Report*.

The accompanying financial statements present all funds of the College and component units for which the College's Board of Trustees is financially accountable. The College's component unit is discretely presented in the financial statements. The discretely presented component unit's financial data is reported in separate financial statements because of its use of different GAAP reporting models and to emphasize its legal separateness.

Discretely Presented Component Unit – Blue Ridge Community College Educational Foundation, Inc., is a legally separate not-for-profit corporation and is reported as a discretely presented component unit based on the nature and significance of its relationship to the College.

The Blue Ridge Community College Educational Foundation, Inc. (Foundation), is a legally separate, tax-exempt component unit of the College. The Foundation acts primarily as a fund-raising organization to supplement the resources that are available to the College in support of its programs. The Foundation board consists of 25 members. Although the College does not control the timing or amount of receipts from the Foundation, the majority of resources, or income thereon, that the Foundation holds and invests are restricted to the activities of the College by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of the College, the Foundation is considered a component unit of the College and is reported in separate financial statements because of the difference in its reporting model, as described below.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

The Blue Ridge Community College Educational Foundation, Inc., is a private not-for-profit organization that reports its financial results under Financial Accounting Standards Board (FASB) Statements. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. No modifications have been made to the Foundation's financial information in the College's financial reporting entity for these differences.

During the year ended June 30, 2004, the Foundation distributed \$243,582.13 to the College for both restricted and unrestricted purposes. Complete financial statements for the Foundation can be obtained by calling (828) 694-1709.

- B. Basis of Presentation** - The accompanying financial statements are presented in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB).

Pursuant to the provisions of GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, as amended by GASB Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities*, the full scope of the College's activities is considered to be a single business-type activity (BTA) and accordingly, is reported within a single column in the basic financial statements.

In accordance with GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the College does not apply Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989, for proprietary activities, unless the GASB amends its pronouncements to specifically adopt FASB pronouncements issued after that date.

- C. Basis of Accounting** - The financial statements of the College have been prepared using the economic resource measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.
- D. Cash and Cash Equivalents** – This classification includes undeposited receipts, petty cash, cash on deposit with private bank accounts, and deposits held by the State Treasurer in the short-term investment portfolio. The short-term investment portfolio maintained by the State

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Treasurer has the general characteristics of a demand deposit account in that participants may deposit and withdraw cash at any time without prior notice or penalty.

- E. Receivables** – Receivables consist of tuition and fees charges to students and charges for auxiliary enterprises' sales and services. Receivables also include amounts due from the federal government, State and local governments, and private sources in connection with reimbursement of allowable expenditures made pursuant to contracts and grants. Receivables are recorded net of estimated uncollectible amounts.
- F. Inventories** – Inventories, consisting of expendable supplies and merchandise for resale, are stated at the lower of cost or market value using the first-in, first-out method.
- G. Capital Assets** – Capital assets are stated at cost at date of acquisition or fair value at date of donation in the case of gifts. The College capitalizes assets that have a value or cost in excess of \$5,000 at the date of acquisition and an expected useful life of more than one year. Library books are generally not considered to have a useful life of more than one year unless part of a collection and are expensed in the year of acquisition.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 15 years for general infrastructure, 15 to 40 years for buildings, and 3 to 15 years for equipment.

- H. Restricted Assets** – Unexpended capital contributions are classified as restricted assets because their use is limited by donor/grantor agreements. Certain other assets are classified as restricted because their use is limited by external parties or statute.
- I. Noncurrent Long-Term Liabilities** – Noncurrent long-term liabilities includes notes payable and compensated absences that will not be paid within the next fiscal year.
- J. Compensated Absences** - The College's policy is to record the cost of vacation leave when earned. The policy provides for a maximum accumulation of unused vacation leave of 30 days which can be carried forward each July 1st or for which an employee can be paid upon termination of employment. Also, any accumulated vacation leave in excess of 30 days at year-end is converted to sick leave.

In addition to the vacation leave described above, compensated absences includes the accumulated unused portion of the special annual leave

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

bonuses awarded by the College to all full-time permanent employees as of September 30, 2002, and as of July 1, 2003. The unused portion of this leave remains available until used, notwithstanding the limitation on annual leave carried forward described above.

When classifying compensated absences into current and noncurrent, leave is considered taken using a last-in, first-out method.

K. Net Assets – The College’s net assets are classified as follows:

Invested in Capital Assets, Net of Related Debt – This represents the College’s total investment in capital assets, net of outstanding debt obligations related to those capital assets.

Restricted Net Assets – Nonexpendable – Nonexpendable restricted net assets include endowments and similar type assets whose use is limited by donors or other outside sources, and, as a condition of the gift, the principal is to be maintained in perpetuity.

Restricted Net Assets – Expendable – Expendable restricted net assets include resources for which the College is legally or contractually obligated to spend in accordance with restrictions imposed by external parties.

Unrestricted Net Assets – Unrestricted net assets include resources derived from student tuition and fees, sales and services, unrestricted gifts, and interest income.

Restricted and unrestricted resources are tracked using a fund accounting system and are spent in accordance with established fund authorities. Fund authorities provide rules for the fund activity and are separately established for restricted and unrestricted activities. When both restricted and unrestricted funds are available for expenditure, the decision for funding is transactional based within the departmental management system in place at the College.

L. Scholarship Discounts – Student tuition and fees revenues and certain other revenues from College charges are reported net of scholarship discounts in the accompanying Statement of Revenues, Expenses, and Changes in Net Assets. The scholarship discount is the difference between the actual charge for goods and services provided by the College and the amount that is paid by students or by third parties on the students’ behalf. Student financial assistance grants, such as Pell grants, and other federal, State, or nongovernmental programs, are recorded as either operating or nonoperating revenues in the accompanying Statement of Revenues, Expenses, and Changes in Net Assets. To the extent that

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

revenues from these programs are used to satisfy tuition, fees, and other charges, the College has recorded a scholarship discount.

- M. Revenue and Expense Recognition** – The College classifies its revenues and expenses as operating or nonoperating in the accompanying Statement of Revenues, Expenses, and Changes in Net Assets. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the College’s principal ongoing operations. Operating revenues include activities that have characteristics of exchange transactions, such as (1) student tuition and fees, (2) sales and services of auxiliary enterprises, and (3) certain federal, State and local grants and contracts. Operating expenses are all expense transactions incurred other than those related to capital and noncapital financing or investing activities as defined by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*.

Nonoperating revenues include activities that have the characteristics of nonexchange transactions. Revenues from nonexchange transactions and State aid that represent subsidies or gifts to the College, as well as investment income, are considered nonoperating since these are either investing, capital or noncapital financing activities. Capital contributions are presented separately after nonoperating revenues and expenses.

- N. Internal Sales Activities** – Certain institutional auxiliary operations provide goods and services to College departments, as well as to its customers. These institutional auxiliary operations include activities such as the copy center. In addition, the College has other miscellaneous sales and service units that operated either on a reimbursement or charge basis. All internal sales activities to College departments from auxiliary operations and sales and service units have been eliminated in the accompanying financial statements. These eliminations are recorded by removing the revenue and expense in the auxiliary operations and sales and service units and, if significant, allocating any residual balances to those departments receiving the goods and services during the year. Effective May 1, 2002, College Bookstores of America began the operations of the bookstore.
- O. County Appropriations** - County appropriations are provided to the College primarily to fund its plant operation and maintenance function and to fund construction projects, motor vehicle purchases, and maintenance of equipment. Unexpended county current appropriation and county capital appropriation do not revert and are available for future use by the College.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 2 - DEPOSITS

All funds of the College are deposited in board-designated official depositories and are required to be collateralized in accordance with General Statute 115D-58.7. Official depositories may be established with any bank or savings and loan association whose principal office is located in North Carolina or with the State Treasurer's Investment Pool. Also, the College may establish time deposit accounts, money market accounts, and certificates of deposit. At year end, cash on hand was \$900.00. The carrying amount of cash on deposit was \$473,183.40 and the bank balance was \$567,993.11.

The North Carolina Administrative Code (20 NCAC 7) requires all depositories to collateralize public deposits in excess of federal depository insurance coverage by using one of two methods, dedicated or pooled. Under the dedicated method, a separate escrow account is established by each depository in the name of each local governmental unit and the responsibility of monitoring collateralization rests with the local unit. Under the pooling method, each depository establishes an escrow account in the name of the State Treasurer to secure all of its public deposits. This method shifts the monitoring responsibility from the local unit to the State Treasurer.

Cash on deposit at year end consisted of the following:

	Book Balance	Bank Balance
Cash on Deposit with State Treasurer	\$ 296,683.93	\$ 297,386.34
Cash on Deposit with Private Financial Institutions	176,499.47	270,606.77
	<u>\$ 473,183.40</u>	<u>\$ 567,993.11</u>

The cash on deposit with the State Treasurer is pooled with State agencies and similar institutions in short-term investments with the State Treasurer's Investment Pool. These moneys are invested in accordance with General Statutes 147-69.1(c) and 147-69.2, and as required by law are "readily convertible into cash." All investments of the fund are held either by the Department of State Treasurer or agent in the State's name. The fund's uninvested cash is either covered by federal depository insurance or, pursuant to 20 NCAC 7, is collateralized under either the dedicated or pooling method.

The financial statements and disclosures for the State Treasurer's Investment Pool are included in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page <http://www.osc.state.nc.us/> and clicking on "Financial Reports", or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Of the cash on deposit with private financial institutions at June 30, 2004, \$200,000.47 of the bank balance was covered by federal depository insurance and \$367,992.64 was covered by collateral held by an authorized escrow agent in the name of the State Treasurer (pooling method).

NOTE 3 - RECEIVABLES

Receivables at June 30, 2004, were as follows:

	<u>Gross Receivables</u>	<u>Less Allowance for Doubtful Accounts</u>	<u>Net Receivables</u>
Current Receivables:			
Students	\$ 143,833.66	\$ 0.00	\$ 143,833.66
Intergovernmental	80,016.14		80,016.14
Interest on Loans	702.41		702.41
Other	949.92		949.92
	<u>949.92</u>		<u>949.92</u>
Total Current Receivables	<u>\$ 225,502.13</u>	<u>\$ 0.00</u>	<u>\$ 225,502.13</u>
Notes Receivable:			
Notes Receivable - Current:			
Institutional Student Loan Programs	\$ 113,049.38	\$ 40,072.53	\$ 72,976.85
	<u>\$ 113,049.38</u>	<u>\$ 40,072.53</u>	<u>\$ 72,976.85</u>

NOTE 4 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2004, is presented as follows:

	<u>Balance July 1, 2003</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2004</u>
Capital Assets, Nondepreciable:				
Land	\$ 1,630,640.00	\$ 0.00	\$ 0.00	\$ 1,630,640.00
Capital Assets, Depreciable:				
Buildings	20,663,514.04	81,505.32		20,745,019.36
Machinery and Equipment	2,538,931.47	53,373.95	8,503.32	2,583,802.10
General Infrastructure	911,212.90			911,212.90
	<u>911,212.90</u>			<u>911,212.90</u>
Total Capital Assets, Depreciable	<u>24,113,658.41</u>	<u>134,879.27</u>	<u>8,503.32</u>	<u>24,240,034.36</u>
Less Accumulated Depreciation:				
Buildings	7,094,961.92	524,300.76		7,619,262.68
Machinery and Equipment	1,534,037.13	223,244.04	8,007.18	1,749,273.99
General Infrastructure	761,630.56	12,680.16		774,310.72
	<u>761,630.56</u>	<u>12,680.16</u>		<u>774,310.72</u>
Total Accumulated Depreciation	<u>9,390,629.61</u>	<u>760,224.96</u>	<u>8,007.18</u>	<u>10,142,847.39</u>
Total Capital Assets, Depreciable, Net	<u>14,723,028.80</u>	<u>(625,345.69)</u>	<u>496.14</u>	<u>14,097,186.97</u>
Capital Assets, Net	<u>\$ 16,353,668.80</u>	<u>\$ (625,345.69)</u>	<u>\$ 496.14</u>	<u>\$ 15,727,826.97</u>

NOTE 5 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2004, were as follows:

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

	Amount
Accounts Payable	\$ 2,743.66
Accrued Payroll	50,320.87
Contract Retainage	748.00
Intergovernmental Payables	2,796.45
Total Accounts Payable and Accrued Liabilities	\$ 56,608.98

NOTE 6 - LONG-TERM LIABILITIES

A. Changes in Long-Term Liabilities - A summary of changes in the long-term liabilities is presented as follows:

	Balance July 1, 2003	Additions	Reductions	Balance June 30, 2004	Current Portion
Notes Payable	\$ 681,154.63	\$ 0.00	\$ 58,184.32	\$ 622,970.31	\$ 61,142.88
Compensated Absences	444,368.92	428,535.43	308,958.05	563,946.30	63,782.32
Total Long-Term Liabilities	\$ 1,125,523.55	\$ 428,535.43	\$ 367,142.37	\$ 1,186,916.61	\$ 124,925.20

B. Notes Payable - The College was indebted for notes payable for the purposes shown in the following table:

Purpose	Financial Institution	Interest Rate/ Ranges	Final Maturity Date	Original Amount of Issue	Principal Paid Through 06/30/2004	Principal Outstanding 06/30/2004
Energy Conservation Equipment	BB&T	4.97%	12/12/2012	\$ 699,187.00	\$ 76,216.69	\$ 622,970.31

The annual requirements to pay principal and interest on the notes payable at June 30, 2004, are as follows:

Fiscal Year	Annual Requirements	
	Notes Payable	
	Principal	Interest
2005	\$ 61,142.88	\$ 29,581.32
2006	64,251.86	26,472.34
2007	67,518.93	23,205.27
2008	70,952.13	19,772.07
2009	74,559.92	16,164.28
2010-2012	284,544.59	25,429.76
Total Requirements	\$ 622,970.31	\$ 140,625.04

NOTE 7 - OPERATING LEASE OBLIGATIONS

Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2004:

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

<u>Fiscal Year</u>	<u>Amount</u>
2005	\$ 122,327.88
2006	116,890.38
2007	109,277.88
2008	109,277.88
Total Minimum Lease Payments	<u>\$ 457,774.02</u>

Rental expense for all operating leases during the year was \$84,463.85.

NOTE 8 - REVENUES

A summary of eliminations and allowances by revenue classification is presented as follows:

	<u>Gross Revenues</u>	<u>Internal Sales Eliminations</u>	<u>Less Scholarship Discounts</u>	<u>Less Allowance for Uncollectibles</u>	<u>Net Revenues</u>
Operating Revenues:					
Student Tuition and Fees	<u>\$ 2,490,707.60</u>	<u>\$ 0.00</u>	<u>\$ 592,735.30</u>	<u>\$ 32,737.84</u>	<u>\$ 1,865,234.46</u>
Sales and Services:					
Sales and Services of Auxiliary Enterprises:					
Print Shop	\$ 103,652.13	\$ 89,889.84	\$ 0.00	\$ 0.00	\$ 13,762.29
Central Store	15,590.30	15,234.70			355.60
Other	9,867.09				9,867.09
Sales and Services of Education and Related Activities	<u>82,702.80</u>				<u>82,702.80</u>
Total Sales and Services	<u>\$ 211,812.32</u>	<u>\$ 105,124.54</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 106,687.78</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 9 - OPERATING EXPENSES BY FUNCTION

The College's operating expenses by functional classification are presented as follows:

	Salaries and Benefits	Supplies and Materials	Services	Scholarships and Fellowships	Utilities	Depreciation	Total
Instruction	\$ 6,253,598.17	\$ 278,887.14	\$ 790,340.33	\$ 191,277.84	\$ 0.00	\$ 0.00	\$ 7,514,103.48
Academic Support	643,675.32	40,755.66	100,173.62				784,604.60
Student Services	492,051.44	20,165.14	143,002.52	28,910.18			684,129.28
Institutional Support	2,381,595.22	62,152.24	377,088.37				2,820,835.83
Operations and Maintenance of Plant	555,650.18	872,913.50	253,165.18		422,286.51		2,104,015.37
Student Financial Aid			36,517.84	918,051.54			954,569.38
Auxiliary Enterprises	10,267.40	68,485.05	175,314.42				254,066.87
Depreciation						760,224.96	760,224.96
Total Operating Expenses	<u>\$ 10,336,837.73</u>	<u>\$ 1,343,358.73</u>	<u>\$ 1,875,602.28</u>	<u>\$ 1,138,239.56</u>	<u>\$ 422,286.51</u>	<u>\$ 760,224.96</u>	<u>\$ 15,876,549.77</u>

NOTE 10 - PENSION PLANS

A. Retirement Plans - Each permanent full-time employee, as a condition of employment, is a member of the Teachers' and State Employees' Retirement System. The Teachers' and State Employees' Retirement System (System) is a cost sharing multiple-employer defined benefit pension plan administered by the North Carolina State Treasurer.

Benefit and contribution provisions for the Teachers' and State Employees' Retirement System are established by *North Carolina General Statutes* 135-5 and 135-8 and may be amended only by the North Carolina General Assembly. Employer and member contribution rates are set each year by the North Carolina General Assembly based on annual actuarial valuations. For the year ended June 30, 2004, these rates were set at .22% of covered payroll for employers and 6% of covered payroll for members.

For the year ended June 30, 2004, the College had a total payroll of \$8,797,133.71, of which \$6,812,715.66 was covered under the Teachers' and State Employees' Retirement System. Total employee and employer contributions for pension benefits for the year were \$408,762.94 and \$14,987.97, respectively. The College made one hundred percent of its annual required contributions for the years ended June 30, 2004, 2003, and 2002, which were \$14,987.97, \$0.00, and \$125,178.44, respectively.

The Teachers' and State Employees' Retirement System's financial information is included in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

home page <http://www.osc.state.nc.us/> and clicking on “Financial Reports”, or by calling the State Controller’s Financial Reporting Section at (919) 981-5454.

B. Deferred Compensation and Supplemental Retirement Income Plans

IRC Section 457 Plan - The State of North Carolina offers its permanent employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457 through the North Carolina Public Employee Deferred Compensation Plan (the Plan). The Plan permits each participating employee to defer a portion of his or her salary until future years. The deferred compensation is available to employees upon separation from service, death, disability, retirement, or financial hardships if approved by the Board of Trustees of the Plan. The Board, a part of the North Carolina Department of Administration, maintains a separate fund for the exclusive benefit of the participating employees and their beneficiaries, *the North Carolina Public Employee Deferred Compensation Trust Fund*. The Board also contracts with an external third party to perform certain administrative requirements and to manage the trust fund’s assets. All costs of administering and funding the Plan are the responsibility of the Plan participants. No costs are incurred by the College. The voluntary contributions by employees amounted to \$901.68 for the year ended June 30, 2004.

IRC Section 401(k) Plan - All members of the Teachers’ and State Employees’ Retirement System are eligible to enroll in the Supplemental Retirement Income Plan, a defined contribution plan, created under Internal Revenue Code Section 401(k). All costs of administering the Plan are the responsibility of the Plan participants. No costs are incurred by the College. The voluntary contributions by employees amounted to \$119,385.10 for the year ended June 30, 2004.

IRC Section 403(b) and 403(b)(7) Plans - Eligible College employees can participate in tax sheltered annuity plans created under Internal Revenue Code Sections 403(b) and 403(b)(7). The employee’s eligible contributions, made through salary reduction agreements, are exempt from federal and State income taxes until the annuity is received or the contributions are withdrawn. These plans are exclusively for employees of colleges and certain charitable and other nonprofit institutions. All costs of administering and funding these plans are the responsibility of the Plan participants. No costs are incurred by the College. The voluntary contributions by employees amounted to \$61,082.00 for the year ended June 30, 2004.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 11 - OTHER POSTEMPLOYMENT BENEFITS

A. Health Care for Long-Term Disability Beneficiaries and Retirees -

The College participates in State-administered programs which provide postemployment health insurance to eligible former employees. Eligible former employees include long-term disability beneficiaries of the Disability Income Plan of North Carolina and retirees of the Teachers' and State Employees' Retirement System. These benefits were established by Chapter 135, Article 3, Part 3, of the General Statutes and may be amended only by the North Carolina General Assembly. Funding for the health care benefit for long-term disability beneficiaries and retirees is financed on a pay-as-you-go basis. The College contributed 3.2% of the covered payroll under the Teachers' and State Employees' Retirement System for these health care benefits. For the fiscal year ended

June 30, 2004, the College's total contribution to the Plan was \$218,006.90. The College assumes no liability for retiree health care benefits provided by the programs other than its required contribution. Additional detailed information about these programs can be located in the State of North Carolina's *Comprehensive Annual Financial Report*.

B. Long-Term Disability - The College participates in the Disability Income Plan of North Carolina (DIPNC). Established by Chapter 135, Article 6, of the General Statutes, DIPNC provides short-term and long-term disability benefits to eligible members of the Teachers' and State Employees' Retirement System. Long-term disability income benefits are advance funded on an actuarially determined basis using the one-year term cost method. Employer contributions are established in the Appropriations Bill by the General Assembly. The College was not required to contribute to the DIPNC for the fiscal year ended June 30, 2004. The College assumes no liability for long-term disability benefits under the Plan other than its contribution. Additional detailed information about the DIPNC is disclosed in the State of North Carolina's *Comprehensive Annual Financial Report*.

NOTE 12 - RISK MANAGEMENT

The College is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These exposures to loss are handled via a combination of methods, including participation in State-administered insurance programs, purchase of commercial insurance, and self-retention of certain risks. Except for a reduction in the public officers' and employees' liability insurance from \$11,000,000 to \$5,000,000, there have been no significant reductions in

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

insurance coverage from the previous year and settled claims have not exceeded coverage in any of the past three fiscal years. Tort claims of up to \$500,000 are self-insured under the authority of the State Tort Claims Act. In addition, the State provides excess public officers' and employees' liability insurance up to \$5,000,000 via contract with a private insurance company. The premium, based on a composite rate, is paid by the North Carolina Community College System Office directly to the private insurer.

Fire and other property losses are covered by contracts with private insurance companies. There have been no significant reductions in insurance coverage from the previous year and settled claims have not exceeded coverage in any of the past three fiscal years. State-owned vehicles used for instructional purposes are covered by liability insurance handled by the State Department of Insurance. Liability insurance for other College-owned vehicles is covered by contracts with private insurance companies.

The College is protected for losses from employee dishonesty and computer fraud for employees paid in whole or in part from State funds. The blanket honesty bond is with a private insurance company and is handled by the North Carolina Department of Insurance with coverage of \$5,000,000 per occurrence and a \$50,000 deductible. Employee dishonesty insurance for employees paid from non-State funds is purchased from Montgomery Insurance Company with coverage of \$50,000 per occurrence with a \$500 deductible.

Employees and retirees are provided health care coverage by the Comprehensive Major Medical Plan (Plan), a component unit of the State. The Plan is funded by employer and employee contributions and is administered by a third-party contractor.

The State Board of Community Colleges makes the necessary arrangements to carry out the provisions of the Workers' Compensation Act which are applicable to employees whose wages are paid in whole or in part from State funds. The College purchases workers' compensation insurance for employees whose salaries or wages are paid by the Board entirely from county or institutional funds.

Term life insurance of \$25,000 to \$50,000 is provided to eligible workers. This self-insured death benefit program is administered by the State Treasurer and funded via employer contributions. There were no employer contributions required for the current fiscal year.

Additional details on the State-administered risk management programs are disclosed in the State's *Comprehensive Annual Financial Report*, issued by the Office of the State Controller.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 13 - COMMITMENTS AND CONTINGENCIES

A. Commitments - The College has established an encumbrance system to track its outstanding commitments on construction projects and other purchases. Outstanding commitments on construction contracts were \$69,909.62 at June 30, 2004.

B. Community College General Obligation Bonds – The 1999-2000 Session of the General Assembly of North Carolina authorized the issuance of \$600 million of general obligation bonds of the State, as subsequently approved by a vote of qualified voters of the State, to provide funds for capital improvements for the North Carolina Community College System. The funds authorized are to be used solely to construct new buildings and to renovate and modernize existing buildings on the North Carolina Community College System campuses. The bond legislation specifies the amount of bond funding for each College campus as well as the intended amount for new construction and repair and replacement. The legislation further provides that the State Board of Community Colleges shall be responsible for the approval of projects in accordance with provisions of the legislation. The bonds were authorized for issuance over a six-year period beginning in 2001 at a level not to exceed amounts provided in the legislation. Using a cash flow financing approach, The Community College System's Office (CCSO) establishes annual amounts not to exceed for each approved project. The amounts not to exceed are subject to change due to actual cash availability and needs during the year. Subsequent to the bond sales and the availability of bond proceeds, CCSO notifies the Office of State Budget and Management (OSBM) of the amount not to exceed for the total of the approved projects. Within this amount, based on an official request of cash needs from the State Board of Community Colleges, OSBM authorizes allotments. These allotments are then recorded to specific community college allotment accounts by the CCSO. The College records the allotments as revenue on the accompanying financial statements. The College's remaining authorization of \$1,997,759.00 is contingent on future bond sales and CCSO allotment approval. Because of uncertainty and time restrictions the remaining authorization is not recorded as an asset or revenue on the accompanying financial statements.

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

NOTE 14 - CHANGE IN FINANCIAL ACCOUNTING AND REPORTING

For the fiscal year ended June 30, 2004, the College implemented Governmental Accounting Standards Board Statement No. 39, *Determining Whether Certain Organizations are Component Units*. This Statement amends GASB Statement No. 14, *The Financial Reporting Entity*, to provide additional guidance to determine whether certain organizations for which the College is not financially accountable should be reported as component units based on the nature and significance of their relationship to the College.

NOTE 15 - NET ASSET RESTATEMENT

As of July 1, 2003, net assets as previously reported was restated as follows:

	<u>Amount</u>
July 1, 2003 Net Assets	\$ 16,383,759.76
Correction of Net Assets	<u>(3,410.68)</u>
July 1, 2003 Net Assets as Restated	<u><u>\$ 16,380,349.08</u></u>

Blue Ridge Community College
Schedule of General Obligation Bond Project Authorizations,
Budgets, and Expenditures
For Project-to-Date as of June 30, 2004

Schedule 1

Capital Improvement Projects	Original Projected Start Date	Revised/ Actual Start Date	General Obligation Bonds Authorized	Other Sources	Total Project Budget	Amount Expended	Percent Completed	Original Expected Completion Date	Revised/ Actual Completion Date
<i>Projects Approved by the State Board</i>									
General Renovations-Flat Rock Campus-1227		Aug 2001	\$ 536,522.00	\$ 0.00	\$ 536,522.00	\$ 536,522.00	100.00%	Dec 2002	Jun 2003
Campus wide wiring/infrastructure/distance learning-1276		Aug 2002	258,774.00		258,774.00	258,774.00	100.00%	Jun 2004	Jun 2004
Renovations to Stu Ctr/Driveways,Drainage/PE fac. Etc.-1350		Oct 2003	402,969.00		402,969.00	316,243.16	78.48%	Jan 2002	Jan 2005
General Renovations Phase II-Flat Rock Campus-1304		Nov 2002	125,928.00		125,928.00	125,928.00	100.00%	Jul 2003	Dec 2003
<i>Projects Pending Approval by the State Board</i>									
Transylvania Center Additions and Renovations			894,579.00	130,221.00	1,024,800.00				
Renovations to two classroom buildings			546,458.00		546,458.00				
New Vocational Training Building			648,262.00		648,262.00				
Total All Projects			\$ 3,413,492.00	\$ 130,221.00	\$ 3,543,713.00	\$ 1,237,467.16			

Note: The 1999-2000 Session of the General Assembly of North Carolina authorized the issuance of \$600 million of general obligation bonds of the State, as subsequently approved by a vote of qualified voters of the State, to provide funds for capital improvements for the North Carolina Community College System. The projects listed on this schedule are those funded or to be funded by bond proceeds from the general obligation bonds authorized by Senate Bill 912.

REVIEW FINDINGS AND RECOMMENDATIONS

Matters Related to Financial Reporting

Current Year Findings and Recommendations – The following finding and recommendation was identified during the current review and represents a significant deficiency in internal control.

1. FINANCIAL STATEMENT PRESENTATION

The June 30, 2004, financial statements and related notes contained numerous presentation errors. The College did not follow the current pro-forma provided by the Office of the State Controller to complete the Notes to the Financial Statements. In addition, the College did not review its financial statements to prevent misstatements and assure accuracy.

Recommendation: We recommend that the College management review financial statements and notes at year end to ensure that misstatements and reporting errors are detected prior to submission of the financial statements to the Office of the State Controller.

College's Response: We agree with these recommendations. Management will review financial statements and notes to ensure there are no errors or misstatements.

Current Year Findings and Recommendations Also Reported in Prior Audit – The following findings and recommendations were identified during the current review and prior audit and represent significant deficiencies in internal control.

2. DEFICIT NET ASSETS FUND BALANCE AND CASH OVERDRAFT

At June 30, 2004, the College's Print Shop had a deficit net asset balance of \$155,534.78 and a cash overdraft of \$7,244.11. A continuing deficit in this fund will hinder the efficiency of other funds from which this fund is borrowing.

Recommendation: We recommend that the College continue to implement their written plan and monitor the results of operations in order to eliminate the deficit net asset balance in this fund.

College's Response: We agree with the recommendation. Blue Ridge Community College has implemented a plan to reduce the deficit in the Print Shop account with the expectation that it will be eliminated in three years.

REVIEW FINDINGS AND RECOMMENDATIONS (CONCLUDED)

3. COMPUTER ACCESS RIGHTS

An unauthorized individual who is not an employee of the College continues to have computer access rights to the College's computer system. The College is responsible for establishing adequate internal control procedures to safeguard assets.

Recommendation: We recommend that the College implement procedures to ensure that unauthorized individuals are denied computer access.

College's Response: We agree with the recommendation. Procedures are in place to assure that nonemployees and former employees have no access to the College's computer system.

DISTRIBUTION OF REVIEW REPORT

In accordance with General Statutes 147-64.5 and 147-64.6(c)(14), copies of this report have been distributed to the public officials listed below. Additional copies are provided to other legislators, state officials, the press, and the general public upon request.

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June 30, 2005

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